

## Message Text

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14  
ORIGIN EB-03

INFO OCT-01 ISO-00 /004 R

66011  
DRAFTED BY:EB/FTD:CANGEVINE:HM  
APPROVED BY:EB/FTD:CANGEVINE  
----- 002007  
R 240037Z JUL 76  
FM SECSTATE WASHDC  
TO AMEMBASSY TAIPEI

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FOL RPT MANILA 9522 ACTION SECSTATE JUL 1

QUOTE: LIMITED OFFICIAL USE MANILA 9522

PASS USDA FAS/STEPHENS, CEP AND WILLIAMS, COT DIV, FMD  
STATE ANGEVINE, F&TD

E.O. 11652: N/A  
TAGS: EAGR  
SUBJ: COTTON CONTRACT PROBLEM

REF: A. STATE 150242 B. MANILA 14701

1. OUR UNDERSTANDING OF USG VIEW REMAINING OVERDUE CONTRACTS IS THAT CANCELLATION BY THE U.S. SUPPLIER, AFTER GIVING APPROPRIATE NOTICE TO THE PHILIPPINE MILLS (TWO WEEKS), WILL BE EXERCISED UNILATERALLY (A) IF SUPPLIER AND MILL CANNOT REACH AGREEMENT RE CARRYING CHARGES OR (B) IF CANCELLATION BY MUTUAL AGREEMENT IS NOT POSSIBLE.

2. IN THE INTEREST OF BRINGING THE TROUBLESOME CONTRACT PROBLEM TO A CERTAIN AN RAPID CONCLUSION, WITH REGARD TO ALL THOSE REMAINING OVER-DUE CONTRACTS LISTED IN THE LETTER OF ASSURANCES, WE RECOMMEND THE FOLLOWING COURSE OF ACTION:

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A. INSTRUCT ALL U.S. SHIPPERS WITH SUCH CONTRACTS IMMEDIATELY

TO NOTIFY MILLS AND DBP THAT ACTION DESCRIBED IN PARAGRAPH 1 IS IN EFFECT. WE FEEL THAT U.S. SHIPPERS SHOULD ALSO BE TOLD THAT IF THEY DEVIATE FROM THE ABOVE PLAN, I.E., EXTEND THE TWO-WEEK NOTICE PERIOD TO THE MILL, THAT THE USG WILL NOT CONTINUE TO DEMAND GOP ENFORCEMENT ON BASIS OF LETTER OF ASSURANCES.

B. AT THE END OF TWO WEEKS U.S. SUPPLIERS SHOULD REPORT TO USG WASHINGTON COURSE OF ACTION TAKEN AND RESULTS BY MILL IN CLEARING THE RECORD OF OVERDUE CONTRACTS. UPON RECEIVING A COMPLETE REPORT FROM SUPPLIERS, USG WASHINGTON SHOULD SEND DBP OFFICIAL NOTICE OF ACTION TAKEN AND ADVISE THAT THE LETTER OF ASSURANCES AND ANNEX CONTRACTS IS A DEAD ISSUE.

3. WE ALSO RECOMMEND THAT THE PHILIPPINES BE OFFERED A SUBSTANTIAL CCC CREDIT LINE FOR COTTON. THE OFFER SHOULD COINCIDE WITH THE ADVICE OF CANCELLATION. THIS WOULD HELP BLUNT THE ILL WILL WHICH IS GOING TO FOLLOW THE CANCELLATIONS. A SUBSTANTIAL CCC CREDIT LINE AT THIS TIME WOULD ALMOST CERTAINLY CONSIDERABLY REDUCE SALES OF NON J.S. COTTON. BALANCE OF PAYMENTS DIFFICULTIES AND MILL PRESSURE PUT ON THE CENTRAL BANK AS A RESULT OF THE ONEROUS MARGINAL DEPOSIT REQUIREMENT WOULD PROBABLY DICTATE THAT THE GOP SHUT OFF FREE DOLLAR IMPORTATIONS AND USE THE CCC LINE.

4. STATEMENT IN PARA 6 REFTEL A THAT QUOTE NO CURRENT VALID CONTRACTS HAVE BEEN CANCELLED BY THE U.S. SHIPPERS UNQUOTE IS CONTRARY TO SOLID MILLS, EDWARD KELLER CO. (AGENT FOR STARKE TAYLOR), AND US. EMBASSY BELIEF THAT STARKE TAYLOR AND SONS CANCELLED 3,000 BALES CONTRACT NO. 8125 WITH SOLID MILLS WHILE NEGOTIATIONS ON CARRYING CHARGES STILL IN PROGRESS AND WAS NOT JUSTIFIED.

5. FYI. STARKE TAYLOR WAS A MEMBER OF THE FIRST NEGOTIATING TEAM IN JULY 1974 AND WAS FULLY AWARE BOTH OF MAGNITUDE OF PROBLEM AND THAT SOLIDS WOULD HAVE TO TAKE OLDEST CONTRACTS FIRST. YET STARKE TAYLOR SOLD THIS COTTON TO SOLIDS ON OCTOBER 28, 1974. SUBSEQUENT DEVELOPMENTS RESULTED IN SOLID MILL EARLIEST POSSIBLE L/C OPENING DATE TO SEPT-OCT 1975 (SEE REF B). ACEA RESPONSE TO REF B IS ERRONEOUS INASMUCH AS IT IMPLIES THAT SOLID MILLS HAD ALTERNATIVE OF OPENING L/C WITH FOREIGN FINANCING AND AVOIDING PRINCIPLE OF OLDEST CONTRACTS FIRST. IT IS INTERESTING LIMITED OFFICIAL USE

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TO NOTE THAT STARKE TAYLOR CANCELLED THE CONTRACT LESS THAN 7 MONTHS AFTER LAST CONTRACTED DELIVERY MONTH WHILE OTHER SHIPPERS HAVE HELD OUT FOR MORE THAN TWO YEARS. COULD IT BE THE LOW PRICE OF THE STARKE TAYLOR-SOLIDS CONTRACT?  
SULLIVAN

UNQUOTE ROBINSON

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COTTON, CONTRACTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 JUL 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** coburnhl  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976STATE183578  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** EB/FTD:CANGEVINE:HM  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Line Count:** 114  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 STATE 150242, 76 MANILA 14701  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** coburnhl  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 27 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <27 MAY 2004 by ShawDG>; APPROVED <16 SEP 2004 by coburnhl>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COTTON CONTRACT PROBLEM  
**TAGS:** EAGR, RP, US  
**To:** TAIPEI  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006